

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

MidAmerican Energy Company

**Petition for determinations pursuant to
Section 32(k)(2)(A) of the Public Utility
Holding Company Act and consent to a
contract with an affiliated interest
pursuant to Section 7-101(3) of the
Public Utilities Act.**

:
: **Docket No.** OFFICIAL FILE

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: ILL. C. C. DOCKET NO. 00-0197
: MidAmerican EXHIBIT NO. 3.0
:
: Witness _____
: Date 10/2/07 Reporter ced

**DIRECT TESTIMONY
OF
ALAN TAYLOR**

1 Q. Please state your name and business address.

2 A. My name is Alan S. Taylor. My business address is PHB Hagler Bailly, Inc.
3 (Hagler Bailly), 1881 Ninth Street, Suite 302, Boulder, Colorado 80302.

4 Q. Who is your employer and what position do you hold?

5 A. I am employed by Hagler Bailly as a vice president in our Economics and Analytics
6 practice.

7 Q. Please summarize your background and experience.

8 A. I received a Bachelor of Science Degree in Energy Engineering from the
9 Massachusetts Institute of Technology. I received a Masters in Business
10 Administration from the Haas School of Business at the University of California,
11 Berkeley, where I specialized in Finance and graduated Valedictorian.

12 I began my career at Baltimore Gas & Electric Company, where I performed
13 efficiency and environmental compliance testing on the utility system's power plants.

1 I subsequently worked for five years as a senior consultant at Energy Management
2 Associates (EMA, now New Energy Associates), training and assisting over two
3 dozen utilities in their use of EMA's operational and strategic planning models,
4 PROMOD III and PROSCREEN II. After that, I worked at Pacific Gas & Electric
5 Company, where I analyzed the utility's proposed demand-side management
6 incentive ratemaking mechanism.

7 Since joining Hagler Bailly, I have spent the last eight years specializing in
8 integrated resource planning, competitive bidding analysis, utility industry
9 restructuring, market price forecasting, and asset valuation. I have testified before
10 state commissions in proceedings involving resource solicitations, environmental
11 surcharges, and fuel adjustment clauses.

12 My detailed resume is included as Attachment A.

13 Q. Please discuss your prior experiences in regard to competitive bidding solicitations.

14 A. I have managed or assisted in numerous competitive bidding solicitations for power
15 supplies in California, Florida, Texas, Colorado, Minnesota, and Missouri. In several
16 instances, affiliate transactions were contemplated or consummated. In these
17 circumstances, my participation as an independent third-party evaluator helped assure
18 regulators and bidders that a fair process was followed. I have performed economic
19 evaluations of dozens of power proposals, reviewed numerous PPAs, and participated
20 in several PPA negotiations.

21 **Purpose and overview of direct testimony**

22 Q. What is the purpose of your direct testimony in this proceeding?

1 A. MidAmerican Energy Company (MidAmerican) proposes to enter into a Power
2 Purchase Agreement (PPA) with an affiliate, Cordova Energy Company LLC (CEC).
3 Hagler Bailly was retained by MidAmerican to review the proposal solicitation and
4 selection process for purposes of providing an independent opinion as to the fairness
5 and openness of the process and addressing issues relating to the PPA. Specifically,
6 I will discuss why the PPA (i) will be beneficial to consumers, (ii) will not provide
7 CEC with an unfair competitive advantage by virtue of its affiliation with
8 MidAmerican, and (iii) is in the public interest. The PPA is included in MidAmerican
9 Exhibit 1.1 to the direct testimony of Mark W. Roberts.

10 Q. Are you familiar with the prices, terms, and conditions of the PPA?

11 A. Yes. I have reviewed the PPA for its general terms and conditions and looked at the
12 pricing and capacity terms in comparison to the values that were part of CEC's
13 proposal.

14 Q. Is the PPA consistent with CEC's proposal?

15 A. Yes. The PPA is consistent with the proposal made by CEC. The specific capacity
16 price is that which was included in the revised proposal provided by CEC on October
17 4, 1999. This proposal was determined to be MidAmerican's least-cost resource
18 alternative, along with a small 25-MW peaking proposal from Bidder A.¹

19 Q. What was your specific role in MidAmerican's solicitation?

20 A. As noted above, Hagler Bailly was retained by MidAmerican to review the overall
21 process and the proposals received in the solicitation, render an independent opinion
22 on the fairness of the solicitation process, and determine whether the outcome was

¹ See MidAmerican Exhibit 2.2 for bidder designations.

1 fair. We were not involved in the preparation of the request for proposals, the
2 evaluations of the bids, the selection of the winning bid, or the negotiation of the
3 PPA.

4 Q. What was the scope of your effort?

5 A. As part of the review process, the following activities were performed:

- 6 ♦ interviewed MidAmerican personnel to understand the sequence of
7 events;
- 8 ♦ reviewed the proposals that MidAmerican received;
- 9 ♦ reviewed internal documents that described the evaluation, presented
10 the analyses, and described the negotiation process and progress;
- 11 ♦ reviewed the written communication between MidAmerican and the
12 bidders;
- 13 ♦ reviewed MidAmerican's selection criteria;
- 14 ♦ assessed the fairness of MidAmerican's solicitation and the
15 appropriateness of its actions.

16 Q. What specific issues need to be considered when considering proposals from an
17 affiliate?

18 A. There are several issues that are addressed in the Public Utility Holding Company Act
19 (PUHCA). This Act was amended in 1992 to, among other things, stimulate the
20 development of independent power production through exempt wholesale generators
21 (EWGs). Congress gave to the states the task of making certain findings in regard to
22 proposed power purchase agreements by electric utilities from affiliated EWGs to
23 ensure that the proposed agreements were in the public interest. Specifically, an

1 electric utility may enter into an agreement to purchase electric energy from an
2 affiliated EWG if each state regulatory authority with jurisdiction over the rates of the
3 utility can make the following determinations:

- 4 ♦ the transaction will benefit consumers,
- 5 ♦ the transaction does not violate any State law (including where
6 applicable, least-cost planning),
- 7 ♦ the transaction would not provide the exempt wholesale generator any
8 unfair competitive advantage by virtue of its affiliation or association
9 with the electric utility company, and
- 10 ♦ the transaction is in the public interest.

11 Q. Please summarize your review of MidAmerican's solicitation process.

12 A. In order to confirm that MidAmerican's selection of the CEC and Bidder A proposals
13 were the least-cost decisions, Hagler Bailly reviewed the various aspects of the
14 solicitation process. This included the solicitation letter, the various analyses that
15 were undertaken, the notes and correspondence with the bidders, and the resulting
16 draft contracts that were associated with the solicitation.

17 Q. Did MidAmerican impose any restrictions on your access to materials relating to the
18 bid process?

19 A. No. MidAmerican made available all of the information we required to perform our
20 evaluation.

21 Q. Why was the review of the solicitation process necessary?

1 A. This effort was intended to identify whether any viable proposals had been rejected
2 without valid justification and whether the solicitation/evaluation process was
3 improperly biased towards any proposal.

4 Q. What were your findings?

5 A. Hagler Bailly determined that all disqualified proposals were eliminated from further
6 consideration for appropriate reasons and that the solicitation/evaluation process was
7 unbiased and resulted in the selection of the least-cost resources from the qualified
8 proposals.

9 **Proposal solicitation and selection process review**

10 Q. Please summarize the general solicitation process.

11 A. MidAmerican issued a request for proposals (RFP) on April 30, 1999, soliciting
12 resources to meet the utility's needs during the 2000 to 2005 period. Responses were
13 due on June 2, 1999. The RFP was sent to over 100 potential suppliers, with 12
14 responding. After the initial evaluation of the responses, MidAmerican placed on the
15 short list one combustion turbine proposal from Bidder A and three combined-cycle
16 bidders — Bidder J, Bidder E, and CEC. These three combined-cycle bidders
17 submitted revised offers in mid-July, and MidAmerican selected its finalist proposal
18 (from Bidder J) on July 28, 1999. After Bidder J increased its proposal prices during
19 the negotiations and refused to hold to the prices contained in its finalist proposal,
20 MidAmerican terminated negotiations on September 3, 1999 and requested the two
21 other short-listed bidders to submit updated offers by October 4, 1999. CEC was
22 selected as the successful bidder in November 1999 and contract negotiations were
23 begun late in that month.

1 Q. Please describe the Bidder A combustion turbine proposal.

2 A. The proposal from Bidder A was considered and accepted. Its proposal was for 25
3 MW of peaking capacity from combustion turbines; negotiations commenced in late
4 July 1999. Since the 25 MW from this project would only provide a small portion of
5 MidAmerican's projected requirements, other resources needed to be acquired. The
6 prices and terms offered by Bidder A were sufficiently attractive to warrant
7 proceeding with negotiations regardless of which one of the combined cycle
8 proposals was pursued or selected. Thus, MidAmerican's solicitation negotiations
9 essentially moved ahead on two fronts. The Bidder A peaking capacity represented a
10 resource that was desirable regardless of the other options being considered, while the
11 negotiations for the combined cycle resource were expected to yield the major
12 resource that would meet MidAmerican's needs.

13 Q. Looking at each stage of the process in more detail, let's focus first on the RFP.
14 Please describe the RFP.

15 A. The letter RFP issued by MidAmerican initiated an all-source solicitation that invited,
16 among other options, demand-side proposals, alternative energy resources, unit
17 participation sales, and system sales. The letter indicated that MidAmerican would
18 not be purchasing output directly from the CEC unit. This statement, coupled with the
19 short time until the capacity was needed, should have reassured potential bidders that
20 the solicitation reflected a sincere interest to acquire the requested capacity through
21 the solicitation process. The letter requested specific information concerning capacity,
22 price, transmission service, and terms and conditions for delivery. It did not require

1 too much detail in bidders' proposals, thereby encouraging broad participation and
2 providing bidders with sufficient flexibility in their responses to the RFP.

3 Q. Please briefly describe the evaluation criteria used by MidAmerican and give us your
4 opinion as to whether they indicate any bias in favor of CEC.

5 A. MidAmerican used two primary evaluation criteria in evaluating proposals: firmness
6 of capacity and overall economic value. Proposals that did not offer capacity that
7 would meet the Mid-Continent Area Power Pool's (MAPP) accreditation
8 requirements were disqualified. The remaining qualified proposals were evaluated on
9 the basis of total cost to MidAmerican, delivered to MidAmerican's transmission
10 system. I believe that the criteria that were used for screening and analysis were
11 reasonable and did not reflect any bias toward CEC. The objective to minimize cost
12 to MidAmerican, the regulated utility, resulted in a selection process that was entirely
13 dependent upon each proposal's charges, terms, and conditions.

14 Q. Given your review of the solicitation process, please describe the analyses performed
15 by MidAmerican in its evaluation of proposals.

16 A. The economic and financial analyses that were undertaken in June 1999 used the
17 details of each proposal and allowed a comparison of those proposals. The analyses
18 utilized the capacity cost, operating costs (including the cost of fuel), transmission
19 expenses, and escalation parameters from each proposal. A dispatch analysis was
20 performed to evaluate how each of the resource options would operate as part of
21 MidAmerican's economically-dispatched system. The costs associated with each
22 proposal were compared to the projected market clearing prices, to the other
23 alternative proposals, and to theoretical self-build options.

1 Q. If MidAmerican was not planning to build significant new generation to meet
2 capacity requirements, why was it reasonable for MidAmerican to include self-build
3 options in the analyses?

4 A. The inclusion of the self-build options in the analyses was to ensure that the bids that
5 were received did not result in unreasonably high costs of power from the new
6 resources. The self-build options represented the costs that MidAmerican would have
7 incurred were it able to build a combined cycle or combustion turbine facility for
8 operation in the required time frame. These calculations represented benchmarks to
9 establish the reasonableness of the proposals and were also used to assist
10 MidAmerican in deciding whether to lengthen or shorten the period of delivery.

11 Q. Please describe the accreditation issue and its relevance to this solicitation.

12 A. One of the factors that led to the issuance of the RFP was the need for capacity by
13 MidAmerican to meet the MAPP reserve requirements. Thus, MidAmerican wanted
14 to be assured that the supply-side resources would be recognized by MAPP as being
15 available to meet its reserve requirements.

16 Accreditable resources are resources that are recognized by MAPP as having
17 the ability to provide a utility with dependable capacity to meet load. Accreditable
18 resources include both generating resources owned by a utility, purchases from other
19 MAPP pool participants, and purchases from other sources including cogenerators,
20 independent power producers, and other electric suppliers. There are several
21 accreditation conditions that must be satisfied for unit participation purchases and
22 firm purchases from non-MAPP pool participants. These include identification of
23 specific units for participation purchases, indication of surplus capability to meet load

1 and reserve obligations for firm system sales, and transmission facilities adequate to
2 deliver the purchased capacity. Firm transmission service is necessary for all
3 accredited purchases and is required to cover the entire path from the sources to the
4 purchasing utility.

5 None of the bids were from MAPP pool participants for firm system service.
6 Therefore, for MidAmerican to have any proposed purchase accredited by MAPP, it
7 was necessary for the bidder to identify the resource(s) that would be providing the
8 capacity. In addition, firm transmission capacity had to be provided to deliver the
9 capacity if the resource(s) was not connected to MidAmerican's transmission system.

10 Q. In your opinion, was it appropriate for MidAmerican to reject proposals that did not
11 provide MidAmerican with creditable capacity?

12 A. Yes. It was appropriate for MidAmerican to reject those proposals that did not have
13 any resources that could be identified as providing the required capacity or where
14 there was no capacity being proposed by the bidder. These bids did not provide for
15 MidAmerican's capacity requirements shown in the solicitation letter. In theory,
16 MidAmerican could have engaged in a second contract to provide creditable
17 capacity to couple with the energy-only proposals. However, the costs would not have
18 been competitive with the other proposals. Therefore, I believe that the rejection of
19 bids that did not offer creditable capacity was reasonable based upon both
20 MidAmerican's requirements and the additional likely costs that would have been
21 borne by MidAmerican for the required creditable capacity.

22 Q. Did Hagler Bailly perform an independent review to validate MidAmerican's
23 conclusion regarding a second contract to provide creditable capacity?

1 A. Yes. We performed an analysis that showed that adding a second capacity-only
2 contract to each of the disqualified proposals would increase their overall costs
3 substantially above those of competing proposals.

4 Q. What else did MidAmerican do prior to the development of a short list?

5 A. MidAmerican phoned all bidders in June, 1999 to give them each an opportunity to
6 clarify their bids and ask whether there was any potential to improve those bids.
7 Bidder J had initially submitted a single resource that was priced as a quasi-
8 peaking/baseload hybrid resource. During this process, MidAmerican indicated to
9 Bidder J that its hybrid resource did not appear to be cost-effective in either peaking
10 or baseload categories. Bidder J asked if it could submit revised bids that would split
11 apart the peaking and baseload qualities of its initially-proposed resource.
12 MidAmerican indicated that it would entertain such a modification. Bidder J
13 submitted revised bids in the middle of July.

14 Q. What was the next step in the RFP process?

15 A. Individual meetings were held with the three bidders with combined cycle proposals
16 to refine the proposals and to obtain the best possible terms to select a final winner.

17 Q. What did MidAmerican then do to select the winner from the remaining short-listed
18 bidders?

19 A. MidAmerican updated the analytical process using the costs included in the revised
20 proposals from Bidder J, CEC, and Bidder E. This procedure included the dispatch
21 analysis followed by the economic and financial evaluations.

1 After evaluating the revised proposals, MidAmerican determined that Bidder J
2 offered the least-cost resource and notified Bidder J that it had been selected as the
3 finalist on July 28, 1999.

4 Q. What economic parameters were considered in the evaluation process?

5 A. The evaluation process considered how the various proposed resources might operate
6 based on economic dispatch. The economic and financial analyses evaluated the
7 various costs associated with each proposal. These costs included the capacity
8 charges, fuel and other operating costs as provided in the proposals, and any
9 transmission costs that would be incurred in receiving the energy onto
10 MidAmerican's system. In addition, the financial evaluation considered an equity
11 charge for all purchased power options, including CEC.

12 This equity charge accounted for the financial community's policy of
13 considering a portion of a PPA's annual fixed (demand) costs as debt. Proposals that
14 have a higher portion of costs in the demand component were penalized more heavily
15 than those with lower fixed costs because of the greater risk associated with larger
16 non-varying committed expenditures. The equity charge was calculated by imputing
17 the amount of equity that would be needed to return the implied capital structure of
18 the utility back to 50% debt/50% equity coupled with the incremental cost of equity
19 compared to long-term debt. This process was applied consistently to all proposals in
20 this solicitation, including CEC's.

21 Q. Did you perform an independent analysis of MidAmerican's economic and financial
22 analyses of the short list?

1 A. Yes. The base financial and economic analyses of the Bidder J, Bidder E, and CEC
2 proposals performed by MidAmerican were reviewed for consistency of methodology
3 and numerical inputs. Hagler Bailly performed a simplified independent evaluation of
4 the shortlisted proposals and confirmed the ranking that MidAmerican developed.
5 Also, the sensitivity analyses that were part of the analytical effort of MidAmerican
6 were included in Hagler Bailly's review. I believe that the analysis undertaken by
7 MidAmerican was a fair and reasonable evaluation of the proposals from the three
8 short-listed bidders. I believe that MidAmerican selected the best remaining least-cost
9 resource that was available to it during each phase of the negotiation process.

10 Q. At the time of the determination of the finalist bidder (i.e., July 28, 1999), where did
11 CEC rank?

12 A. CEC was the second most-favorable proposal; Bidder E was third.

13 Q. What is your understanding of the negotiation efforts between MidAmerican and
14 Bidder J that occurred based on your review of the various documents and
15 correspondence?

16 A. On August 2, 1999, Bidder J sent a draft agreement that would be the framework
17 under which Bidder J would sell power to MidAmerican. In addition to the
18 agreement, Bidder J indicated it would provide a confirmation sheet which would
19 include the agreed-upon terms for the dispatch of the resource, including capacity,
20 scheduling, and cost parameters. On August 4, 1999, Bidder J sent the initial draft of
21 this confirmation sheet that included the terms of its finalist proposal. Bidder J also
22 included a note that indicated that it would next be working on the terms associated

1 with a request from MidAmerican to increase the capacity in the first year from 50
2 MW to 200 MW and to reduce the term from five years to three years.

3 Over two weeks later, on August 18, 1999, Bidder J provided four different
4 pricing options, two options with the original 50 MW in the first year but with either
5 a 3- or 5-year term, and the other two options with 200 MW in the first year and 3- or
6 5-year terms. In all cases, the capacity price was more than 11% higher than the rate
7 in its finalist proposal. Bidder J's covering memo mentioned the fact that "the market
8 has moved due to the price volatility and demand as a result of the activity in July."

9 On the next day, a term sheet with one option, a 200-MW capacity level for five years
10 starting in June 2001, was provided by Bidder J, without any capacity provided in
11 2000, with less scheduling flexibility, and without the liquidated damages provision
12 that were included in the finalist proposal, but with the originally proposed capacity
13 charge. These three provisions included in the finalist proposal had provided value to
14 MidAmerican. None of these five options were as attractive as the original finalist
15 proposal.

16 I understand that a meeting between Bidder J and MidAmerican took place on
17 August 30, 1999 that was intended to cover a range of options that would return the
18 value of Bidder J's new proposals to the value of its finalist proposal. The meeting
19 ended with MidAmerican's expectation that Bidder J would return with more
20 attractive terms. The term sheet sent by Bidder J two days later provided three options
21 for 200 MW of capacity with varying durations and terms, with MidAmerican
22 responsible for acquiring transmission services. The best of these three options was
23 priced (for capacity and associated transmission) over 7% higher than in its finalist

1 proposal. Also, this option entailed higher energy charges during peak months. In
2 total, even the best of these options was not as attractive or as cost-effective as the
3 CEC proposal.

4 Q. What did MidAmerican do then?

5 A. MidAmerican contacted the other two short-listed bidders (CEC and Bidder E) to
6 establish if they would still be able to provide MidAmerican with capacity.

7 Since the RFP indicated that proposals needed to be valid through
8 August 16, 1999, the CEC and Bidder E proposals technically had expired. Therefore,
9 MidAmerican asked the two remaining short-listed bidders to provide updated
10 proposals by October 4, 1999. Using the same evaluation processes, MidAmerican
11 determined that CEC's newest proposal (which improved slightly from its July offer)
12 was the least-cost proposal.

13 In an effort to give Bidder E a chance to match or beat the CEC offer,
14 MidAmerican determined and submitted to Bidder E on November 24, 1999 a term
15 sheet that included a price structure for Bidder E's resource that would make
16 MidAmerican indifferent between the two shortlisted bidders. Minnesota rejected that
17 counter-proposal, leaving CEC as the least-cost option available to MidAmerican.

18 Q. Stepping back and looking at the whole solicitation process, do you believe that the
19 level of response to the solicitation was reasonable?

20 A. Yes. The solicitation letter was sent to over 100 potential suppliers, including utilities,
21 independent power production developers, and power marketers. The solicitation
22 letter had a notice of intent form that potential bidders were encouraged to return if
23 they expected to submit proposals. There was no requirement to submit the notice of

1 intent form if the recipient did not expect to submit a proposal. MidAmerican
2 received 20 responses: 11 indicated that they would submit a proposal (one later
3 changed its mind), six noted that they would not; and three made no indication, but it
4 was presumed that they would submit bids. Ultimately, 12 bidders submitted
5 proposals, some of which included multiple options.

6 Recognizing the capacity situation in the Midwest and the price spikes in the
7 spot market that had occurred during the past two summers, most of the capacity that
8 could be reasonably delivered to MidAmerican was already committed. Therefore,
9 the number and types of proposals that were received — for units under construction,
10 or new units with some form of options for the near term — were consistent with
11 expectations.

12 Q. What was the schedule of events as envisioned in the RFP?

13 A. Bidders had about four weeks from the receipt of the RFP to prepare and submit a
14 proposal. Since the RFP did not ask for detailed forms to be submitted or for draft
15 contracts or similar time-consuming information, the response period and information
16 requested was reasonable. Many of the potential bidders were sophisticated market
17 players or located in the Midwest and would have had a reasonable understanding of
18 the Midwest markets; thus, they were in a position to respond fairly quickly. The
19 evaluation process, including clarification of bids and appropriate negotiations, was
20 scheduled to take about one month. With the RFP indicating a proposal validity date
21 in mid-August, about six weeks after completion of the evaluation process, contract
22 negotiations should have been substantially completed at that point.

23 Q. Do you believe that the schedule as outlined in the RFP was realistic and achievable?

1 A. Based on my experiences in other resource solicitations, I believe that the schedule
2 was ambitious but achievable. The month that was allowed for proposal preparation
3 and the month that was provided for proposal clarification and evaluation were
4 reasonable and achievable given the nature of the solicitation and the number of
5 responses received. The six-week period for any final short list and contract awarding
6 coupled with contract negotiations appears to be somewhat aggressive but not
7 unreasonable.

8 Q. With the notification to Bidder J of its finalist status, how was the solicitation process
9 moving compared to the stated schedule?

10 A. It appears that the notification to Bidder J occurred about one to two weeks later than
11 reflected in the schedule outlined in the RFP letter. The initial evaluation and
12 clarifications of the proposals were completed in about one month, close to schedule.
13 As the situation unfolded, Bidder J indicated that it wanted to modify its initial
14 proposal because it had not been cost-effective. About one week later, Bidder J
15 submitted a substantially improved bid. Bidder J was selected as the winning bidder
16 two weeks later. This left three weeks in which to complete contract negotiations
17 under the initial schedule. This was somewhat behind schedule, although not
18 significantly.

19 Q. What is your understanding of the events that happened in August as they relate to the
20 schedule?

21 A. Negotiations with Bidder J went in reverse on the issue of price. Despite
22 MidAmerican getting positive signals from Bidder J that the bidder could get its then
23 current proposal back in line with its July proposal, such did not end up being the

1 case. By the end of August, after two meetings, MidAmerican had received revised
2 proposals, none of which matched the value of Bidder J's finalist proposal.

3 Q. Do you believe that MidAmerican acted reasonably in terminating discussions with
4 Bidder J?

5 A. Yes. Based on my review, I believe that MidAmerican was justified in ending the
6 discussions with Bidder J. As part of the initial negotiation process, MidAmerican
7 made a legitimate request to determine the costs for a shortened delivery period as an
8 exploratory option or to modify the initial deliveries to maximize value for its
9 customers. After Bidder J raised the price for this request, MidAmerican indicated
10 that it wanted to return to the original terms as reflected in Bidder J's July proposal.
11 Bidder J's response was a set of proposals, none of which matched the value of the
12 July version. The potential deal with Bidder J had deteriorated from an economic
13 perspective and there was minimal progress made towards a contract. The time was
14 approaching when MidAmerican needed to have a commitment in place to meet its
15 capacity requirements.

16 Q. What is your overall assessment of the solicitation process and results?

17 A. Based on the review of the materials associated with the solicitation and the
18 documentation of events that took place during the solicitation and evaluation period,
19 I believe that the process was fair to all potential bidders. During the evaluation
20 process, MidAmerican sought to clarify from each bidder the terms and conditions
21 associated with the offer and provided an opportunity for each bidder to clarify or
22 modify its offer to meet MidAmerican's needs.

1 The selection of CEC represents the least-cost combined-cycle resource that
2 was available to MidAmerican in the required time frame. I believe that, as the least-
3 cost combined-cycle resource, the purchase of power from CEC will benefit utility
4 customers and is in the public interest.

5 Q. Do you believe that all bidders were treated fairly?

6 A. Based upon my understanding of the events that transpired during this period and a
7 review of the various documents, I believe all bidders were treated fairly. I believe
8 fair treatment entails affording equal opportunities to all relevant bidders at each stage
9 of the solicitation process.

10 As an example of this in MidAmerican's solicitation, once the initial analysis
11 had been performed, Bidder J indicated to MidAmerican that it wished to split its
12 original proposal and resubmit two separate proposals that might better address
13 MidAmerican's needs. Other bidders in the running during that period (e.g., Bidder E
14 and CEC) were afforded the same opportunity to change or improve the terms of their
15 initial proposals.

16 Later in the process, after Bidder J had been selected but had adversely
17 modified its bid, MidAmerican returned to the two other shortlisted bidders and
18 offered them the opportunity to submit updated proposals. As a final effort to afford
19 all possible opportunities to the final non-affiliated contender, MidAmerican
20 approached Bidder E with an adjusted Bidder E final proposal that was equivalent to
21 CEC's final proposal. MidAmerican asked Bidder E if it would accept this adjusted
22 proposal and it declined.

From all of the available documentation and evidence, it appears that MidAmerican tried to accommodate all responsive proposals, offering all relevant bidders (i.e., those who were still in the running at each stage) the same opportunities. Specifically, it offered all relevant bidders the chance to modify and clarify their proposals before the initial short list, before the selection of Bidder J at the end of July, after the failed terms with Bidder J, and after the selection of CEC. Thus, I believe that the solicitation was conducted fairly.

Consumer Benefits

Q. Is the PPA beneficial to consumers of MidAmerican's rate-regulated electric supply services?

A. Yes. The benefits to these customers accrue from the solicitation effort undertaken by MidAmerican to secure the least-cost resource alternatives available to meet future electric requirements. The solicitation process sought proposals from a wide range of potential resources. The proposals that were submitted represented resources that bidders indicated would be available to MidAmerican in the time frame required. MidAmerican evaluated these proposals and selected the proposals that provided the least-cost options. The CEC PPA itself is beneficial to consumers in that it provides an assured source of capacity and energy over the 2001 to 2004 period, without necessitating a long-term resource commitment as the utility industry moves to deregulation and retail access. Given the time frame when resources are needed, the PPA with CEC and a PPA with Bidder A represent the least-cost options.

1 Q. Have you quantified the consumer benefits that may result from this PPA?

2 A. Yes. The evaluation process performed by MidAmerican was structured to provide
3 the lowest overall cost of power from the customers' perspective. Under the base
4 assumptions reflected in the analyses, the CEC proposal that was selected was
5 expected to provide MidAmerican with a net present value of savings compared to
6 the proposal from Bidder E of about \$10 million over the 3-year period reflected in
7 the Bidder E proposal, and \$13.6 million when the overall proposal periods are
8 considered. During the course of negotiations with CEC, there were several changes
9 made from the proposed terms, including a shorter contract term. The effects of these
10 changes appears to be a slight reduction in net savings over the Bidder E proposal to
11 about \$9.2 million.

12 While there has been a small decrease in the savings compared to the Bidder E
13 alternative, the PPA should provide MidAmerican's customers with the lowest cost
14 resource option available at this time.

15 Q. What is the likelihood that these consumer benefits will not be realized?

16 A. These benefits have been derived on the base case expectations of the 2001 to 2004
17 period. If the PPA is not approved and signed or if the PPA is terminated because the
18 project is not on schedule, then the consumers will not receive any benefits from the
19 PPA. In fact, MidAmerican would be faced with purchasing energy on the spot
20 market with its volatility, operating more costly energy resources, and purchasing
21 capacity to meet its reserve obligations.

22 Since the PPA only has a three-year term, differences between projected
23 future costs and actual costs should not seriously impact the level of savings. The

1 sensitivity analyses performed by MidAmerican indicated that the CEC proposal
2 remained cost-effective. Higher natural gas prices would increase the cost of power
3 from CEC, but they would also increase the costs associated with the Bidder E
4 proposal as well as the market clearing prices.

5 Since MidAmerican indicated that the utility barely had sufficient capacity to
6 meet its obligations in 1999 and peak loads are expected to continue increasing, the
7 200 MW purchase over the 2001 to 2004 period will be necessary to meet those
8 future loads. Even if retail competition is implemented, the exposure to high costs to
9 MidAmerican and its customers will be minimized by the short term of the PPA.

10 To the best of my knowledge, the only significant consideration in
11 MidAmerican realizing the CEC resource benefits involves MAPP capacity
12 accreditation. The CEC PPA puts the accreditation responsibility on MidAmerican. It
13 is probably a remote possibility that the resource would not get MAPP accreditation,
14 but if this happened, it would significantly reduce the value of the contracted
15 resource.

16 **No unfair competitive advantage for CEC**

17 Q. Will the PPA provide CEC with an unfair advantage by virtue of CEC's affiliation
18 with MidAmerican?

19 A. No. The PPA is the result of a competitive solicitation in which MidAmerican chose
20 the CEC contract because it was the least-cost resource for meeting MidAmerican's
21 capacity needs. Because of that fact, it is clear that the PPA does not provide CEC
22 with subsidized or inflated revenues that might give it an unfair advantage against

1 competitors. The economic terms of the PPA are the lowest terms that were available
2 to MidAmerican through the qualifying responses to its solicitation.

3 Q. Did the RFP, as administered by MidAmerican, offer any advantages to CEC by
4 virtue of its affiliation with MidAmerican?

5 A. No. MidAmerican's administration of the RFP and its evaluation of the CEC proposal
6 was performed on the same bases as the other proposals — to select the best source of
7 low cost power. Thus, MidAmerican did not give any advantage or preferential
8 treatment to CEC as an affiliate. The solicitation was fair to all bidders.

9 **The public interest**

10 Q. Is the PPA in the public interest?

11 A. Yes. The PPA is the result of a competitive solicitation. It represents MidAmerican's
12 least-cost option for acquiring the necessary MAPP-accreditable capacity to address
13 its customers' needs. As a natural-gas-fired combined cycle facility, the Cordova
14 plant will be a high-efficiency, low-emissions addition to the Midwest's inventory of
15 generating plants.

16 Q. Does this conclude your direct testimony?

17 A. Yes.

ALAN S. TAYLOR

AREAS OF QUALIFICATION

Competitive bidding resource selection, integrated resource planning, acid rain compliance planning, risk assessment, market analysis and strategic planning

EMPLOYMENT HISTORY

- ♦ Vice President, Economics & Analytics Group, PHB Hagler Bailly, Inc., Boulder, CO, 2000-present
- ♦ Principal, Economics & Analytics Group, PHB Hagler Bailly, Inc., Boulder, CO, 1997-1999
- ♦ Senior Consultant, Law & Economics Group, Hagler Bailly Consulting, Inc., Boulder, CO, 1995-1997
- ♦ Senior Associate, Utility Services Group, RCG/Hagler Bailly, Inc., Boulder, CO, 1991-1995
- ♦ Summer Intern, Pacific Gas and Electric Company, San Francisco, CA, 1990
- ♦ Graduate Student Research Associate (part-time), Lawrence Berkeley Laboratory, Berkeley, CA, 1989-1991
- ♦ Senior Consultant, Energy Management Associates, Atlanta, GA, 1983-1988
- ♦ Undergraduate Research Associate, MIT Resource Extraction Laboratory, Cambridge, MA, 1982
- ♦ Summer Intern, Baltimore Gas and Electric Company, Baltimore, MD, 1980

EDUCATION

- ♦ Walter A. Haas School of Business, University of California at Berkeley, MBA, Valedictorian, Corporate Finance, 1991
- ♦ Massachusetts Institute of Technology, BS, Energy Engineering, 1983

PROFESSIONAL EXPERIENCE

- ♦ Managed the development of market price forecasts under electric utility industry deregulation.
- ♦ Conducted competitive bidding project evaluations for conventional generating resources, renewable facilities, and off-system power purchases.
- ♦ Led contract negotiations with shortlisted bidders in a utility resource solicitation.
- ♦ Managed the technical and economic appraisal of cogeneration facilities.
- ♦ Performed financial modeling of electric utility bankruptcy workout plan.
- ♦ Trained and assisted many of the nation's largest electric and gas utilities in their use of operational and strategic planning computer models.

SELECTED PROJECTS

1998- Evaluation of New Resources

pres. Client: Public Service of Colorado

Assisted the evaluation of proposals for PSCo's near-term 1999 resource additions and managed the complete third party evaluation of proposals for resources in the 2000-2007 time frame. Such resources included third-party facilities and power purchases, as well as company-sponsored interruptible tariffs. Mr. Taylor assisted with the development of the request for proposals and oversaw the evaluation of all responses. He and his team monitored subsequent negotiations with shortlisted bidders. Mr. Taylor testified before the Colorado Public Utilities Commission on the fairness of the solicitation and the results of the evaluation.

1997- Evaluation/Negotiation of Transmission Interconnection Solicitation

1999 Client: New Century Energies

Managed a solicitation for participation in a major transmission project interconnecting Southwestern Public Service (a Texas member of the Southwest Power Pool) and Public Service of Colorado (a member of the Western Systems Coordinating Council). As the first major inter-reliability-council transmission project in the era of open access, FERC required that SPS and PSCo solicit third-party interest in participation. This project required the development of an RFP and evaluation of responses for both equity participation and long-term transmission service for over 21 alternative high-voltage AC/DC/AC transmission projects. The evaluation has focused on the costs and intangible risks of different transmission alternatives relative to the benefits and savings associated with increased economy interchange, avoided future generating capacity, and reductions in single-system spinning reserve and reliability requirements.

1996- Evaluation/Negotiation of All-Source Solicitation

1997 Client: Southwestern Public Service

Managed the evaluation of a broad array of responses to an all-source solicitation that was issued by Southwestern Public Service (SPS). Resources in the areas of conventional supply-side generation, renewable resources, off-system transactions, DSM, and interruptible loads were proposed. The evaluation entailed scoring the proposals for a variety of price and nonprice attributes. Hagler Bailly was retained to assist Southwestern in its negotiations with the bidders and to perform the detailed evaluation of the best and final offers.

1996- Risk Assessment for 1,000-MW Solicitation

1997 Client: Seminole Electric Cooperative

Managed the review and assessment of risks associated with responses to a 1,000-MW solicitation that was issued by Seminole Electric Cooperative. The evaluation entailed reviewing

selected proposals' financial feasibility, performance guarantees, fuel supply plans, O&M plans, project siting, dispatching flexibility, and bidder qualifications.

1997 Analysis/Testimony Concerning Louisville Gas & Electric's Fuel Adjustment Clause
Client: Kentucky Industrial Utility Customers

Performed a detailed examination of Louisville Gas & Electric's (LG&E) fuel adjustment clause and identified misallocated costs in the areas of transmission line losses and purchased power fuel costs. Mr. Taylor also critiqued LG&E's rate adjustment methodology and recommended closer scrutiny of costs associated with jurisdictional and non-jurisdictional sales. Mr. Taylor testified before the Kentucky Public Service Commission and presented the findings of his analysis.

1997 Analysis/Testimony Concerning Kentucky Utilities' Fuel Adjustment Clause
Client: Kentucky Industrial Utility Customers

Performed a detailed examination of Kentucky Utilities' fuel adjustment clause and recommended more appropriate allocations of costs among jurisdictional and non-jurisdictional customers. Particular emphasis was placed on inter-system sales (and the line losses associated with such sales), purchase power fuel costs, the correct determination of jurisdictional sales. Mr. Taylor testified before the Kentucky Public Service Commission and presented the findings of his analysis.

1995 Development of All-Source Solicitation RFPs
Client: Southwestern Public Service

Managed the development of five RFPs that solicited resources in the areas of conventional supply-side generation, renewable resources, off-system transactions, DSM, and interruptible loads. The RFPs were issued by SPS as part of an all-source solicitation to identify resources that may be competitive with two generation facilities that SPS intended to develop.

1995 Environmental Compliance Analysis
Client: Western utility

Performed a confidential detailed environmental analysis that involved executing hundreds of production simulations of the client utility's system (using PROSCREEN II) to analyze SO₂, NO_x, and particulate reductions associated with different fuel-switching, capital investment, and retirement scenarios.

1994- Implementation of Continuous Emission Monitoring Regulations
1996 Clients: Various

Assisted over 80 utilities in ensuring their compliance with the CAAA's continuous emission monitoring (CEM) regulations (40 CFR Part 75). Using 75check, Hagler Bailly's CEM quality

assurance software system, the project team analyzed the electronic data reports that utilities must file with the U.S. EPA on a quarterly basis. These reports contain detailed hourly emissions information for every CAAA-affected plant and serve as the foundation for the SO₂ emission allowance market.

1994 Evaluation of Big Rivers' Clean Air Act Compliance Plan

Client: Kentucky Industrial Utility Customers

Performed a detailed analysis of Big Rivers Electric Corporation to determine the appropriate SO₂ emission reduction strategy that the utility should undertake to comply with the 1990 Clean Air Act Amendments (CAAA). The utility's historical operations were studied and dozens of hourly production cost simulations of Big Rivers' utility system were performed to assess the operational and economic impacts of different CAAA compliance strategies. Risk/sensitivity analyses were undertaken to determine the affects of varying assumptions of fuel prices, capital costs, and operating and maintenance costs. Mr. Taylor testified before the Kentucky Public Service Commission, endorsing the implementation of a specific incentive ratemaking methodology that would encourage the utility to minimize its compliance costs.

1994 Fuel Procurement Audit of Columbia Gas Company

Client: Public Utilities Commission of Ohio

Assisted in a fuel procurement audit of Columbia Gas Company in Ohio. The utility's gas transportation programs were scrutinized to ensure that full service customers were not subsidizing transportation customers. Cost allocation procedures were studied and marginal costs of service for transportation customers were examined. In addition, the audit included an investigation of how the utility calculated and monitored unaccounted-for-gas.

1994 Development of Competitive Bidding RFP

Client: Empire District Electric Company

Based on knowledge gained from the review of dozens of other utility RFPs, developed a combined-cycle resource RFP for Empire District Electric Company. The project team was responsible for the RFP's entire development, including the development of scoring provisions for price and nonprice project attributes.

1993 Selection of Developer for 25 MW Wind Facility

Client: Northern States Power

Evaluated ten bids that were received by NSP in a solicitation for the development of a 25 MW wind facility in Minnesota. The proposals were scored and ranked through a point-based evaluation system that was developed prior to the solicitation. The scoring involved an assessment of operational and financial feasibility, power purchase pricing terms, construction schedules, and community acceptance issues.

1993 Competitive Bidding Design

Client: Northern States Power

Assisted NSP in the utility's effort to design a generic competitive bidding RFP that could be issued for a variety of generation resources. Two dozen RFPs from other utilities were reviewed to determine the appropriate weights and mechanisms that should be used to score various project attributes.

1993 Evaluation of 500 MW Supply-Side Solicitation

Client: San Diego Gas & Electric

Assisted in the evaluation of 15 bids that were received from a 500 MW solicitation for power by SDG&E. The utility wanted to determine whether or not there were less expensive alternatives to the implementation of its plan to repower one of its own units. The 15 projects represented over 4,000 MW. The bids were evaluated using extensive production costing modeling, in which over 1,000 model runs were performed to evaluate each bid under a variety of scenarios.

1992- Integration of DSM Programs into Utility IRP Filing

1993 Client: Public Service Company of Colorado

Assisted utility in DSM modeling and IRP optimization using PROSCREEN II/PROVIEW. A data transfer system was designed to translate DSM program information from various utility departments. Simulations were performed to assess the cost-effectiveness of different demand- and supply-side options.

SELECTED PUBLICATIONS AND PRESENTATIONS

"Fundamentals of Electricity Deregulation," American Association of Petroleum Geologists/Electric Power Research Institute Conference, April 1999.

"The Coal/Natural Gas Balance in a Reconfigured Utility Industry," American Bar Association Conference on Electricity Law and Regulation, February 1998.

"Asset Divestitures in the Deregulating Power Markets," Hybrid U.S. Power Market Conference, February 1998.

Modeling Renewable Energy Resources in Integrated Resource Planning, D. Logan, C. Neil, and A. Taylor, National Renewable Energy Laboratory, May 1994.

Regulatory Treatment of Electric Utility Clean Air Act Compliance Strategies, Costs, and Emission Allowances, K. Rose, M. Harunuzzaman, and A. Taylor, The National Regulatory Research Institute, December 1993.

"Risk Management Under the 1990 Clean Air Act Amendments: A Study of Emissions Allowance Reserves," Electric Power Research Institute, November 1993.

"Regulatory Accounting for Acid Rain Compliance Planning," 8th Biennial Regulatory Information Conference, September 1992.

"A Seminar on the Techniques and Approaches to Integrated Resource Planning," Hawaii Public Utilities Commission, September 1992.

"A Comparison of the Uranium and Emissions Allowance Markets," A. Taylor and M. Yokell, Electric Power Research Institute, February 1992.

"State Regulation of Utility Compliance Plans and Its Impact on the Emissions Allowance Marketplace," 103rd National Association of Regulatory Utility Commissioners Annual Convention, November 1991.

"Repowering and Site Recycling in a Competitive Environment," A. Taylor and E.P. Kahn, Lawrence Berkeley Laboratory, March 1991.

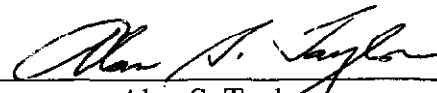
STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

MidAmerican Energy Company	:	
	:	Docket No. _____
Petition for determinations pursuant to	:	
Section 32(k)(2)(A) of the Public Utility	:	
Holding Company Act and consent to a	:	
contract with an affiliated interest	:	
pursuant to Section 7-101(3) of the	:	
Public Utilities Act.	:	

**AFFIDAVIT OF
ALAN S. TAYLOR**

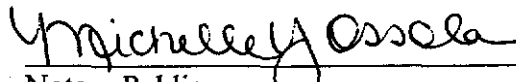
STATE OF COLORADO)
) ss.
COUNTY OF BOULDER)

I, Alan S. Taylor, being first duly sworn on oath, depose and state that I am the same Alan S. Taylor identified in the preceding direct testimony; that I have caused such direct testimony, including any exhibits provided therewith, to be prepared and am familiar with the contents thereof; and, that such direct testimony, including any exhibits provided therewith, are true and correct to the best of my knowledge and belief as of the date of this Affidavit.



Alan S. Taylor

Subscribed and sworn to before me,
a Notary Public in and for said State
and County, this 25th day of February, 2000.



Notary Public

My Commission Expires
June 10, 2003